

IMPACT OF CORPORATE RETAILING ON SMALL BUSINESS

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ABSTRACT

Retail industry in India is undergoing changes as large players are entering into retail business. Concerns have been raised that the aggressive expansion of corporate retailers may have adverse impact on small business. Opinions are divided on impact of corporate retailing on small business; while some are in favour of corporate retail others are protesting their expansion. The paper attempts to study the impact of entry of corporate retailing on small business.

KEYWORDS: *Indian Retail, Corporate Retail, Unorganized Retail Sector, Small Retailers, Foreign Direct Investment*

INTRODUCTION

The Indian retail sector comprises some 15 million small retail outlets employing nearly 40 million people. Indian retail market is worth \$ 450 billion and organized retail accounts for only a small fraction 6% of the total retail market. Indian retail market is dominated by small kirana stores.

Corporate retailing is new in India and not much research has been done on retail. The literature has overlooked the effect of corporate retail on the millions of small retailers in the country. In India corporate retail is impacting sales and profits of small retailers. This study is an attempt to understand the concerns of the small retailers.

An empirical research has been carried out to study the impact of entry of corporate retailers on small business in the twin cities of Hyderabad and Secunderabad. As Hyderabad is considered to be India's most developed retail market, more players are venturing into retail business in the twin cities of Hyderabad and Secunderabad. Small retailers can neither compete with low prices nor with the great variety offered by corporate retailers. It is essential that a study on the possible effects of corporate retail on small business is conducted.

REVIEW OF LITERATURE

Organized retailing in India is on the rise and offers a huge potential both to the companies and consumers. The challenge is how to make the unorganized sector which forms more than 97 percent of the retail market more systematic and organized. (Muriganathan G. & Kaliyamoorthy S.)

The research paper by Mridula S. Mishra (2008) tries to explore how the organized retail has changed the consumption behaviour.

The study by Anuradha Kalhan (2007) discusses the impact as well as the response to competitive threat of malls by small shops in Mumbai. Kalhan found that 71% of the shops near a large corporate retailer had shown declines in profits.

The study by Ajaj Ahmed and Sureshramana Maya discusses the impact of shopping malls on the unorganized retail sector in Mangalore, Karnataka.

OBJECTIVES OF THE STUDY

The main objective is to study the impact of corporate retailing on small business.

HYPOTHESIS OF THE STUDY

Hypothesis 1: There is no impact of corporate retail on small business in terms of changes in the percentage of regular customers.

Hypothesis 2: There is no impact of corporate retail on small business in terms of changes in margin levels.

Hypothesis 3: There is no impact of corporate retail on small business in terms of changes in sales.

RESEARCH METHODOLOGY

A sample of 50 small retailers and 10 corporate retailers from different locations of the twin cities were selected for the study. Convenience sampling technique was used to select the sample retailers. In the present study small retailers refers to kirana and general stores and corporate retailers are supermarkets, hypermarkets, discount chains and malls. 10 corporate retailers include More, Magna, Reliance fresh, Heritage fresh, Nilgiris, Spencer's, Food World, Spar (Supermarkets), Big bazaar (Hypermarket) Hyderabad central (Mall) etc..

Personal interviews were conducted with the corporate retailers and small retailers. Small retailers dealing in food and grocery retail, was selected based on location within a two kilometre radius of corporate retail chains. The data was collected using structured questionnaire. The data obtained from the retailers and consumers was analysed using SPSS computer package and data analysis tools of MS Excel. Simple statistical tools were also used in order to analyse the data. Statistical tools like cross tabulation, percentages and Wilcoxon signed ranks test were used.

The Table 1 presents the impact of corporate retail on sales of small retailers after corporate retail outlet opened in their vicinity. Of the total majority 70 percent of the retailers stated that their sales have been decreased due to the opening of corporate retail outlets. Whereas 10 percent of the retailers stated that their sales have increased and remaining 20 percent stated that there is no change in their sales due to opening of corporate retail outlets.

Table 2 shows an attempt was made to know whether corporate retail has led to the closure of small business outlets. All respondent were asked whether any small retail outlets closed down of due to competition from corporate retail outlets. In case of the small retailers 52 percent of the respondents reported closure of small retail outlets due to presence of corporate outlet in their vicinity and 34 percent of the respondents stated that there is no closure of small retail shops in their neighbourhood. Remaining 14 percent stated that they had no idea about closure of small retail outlets. In the case of corporate retailers 30 percent respondents reported closure of small retail outlets and 50 percent stated that there is no closure of small retail shops in their neighbourhood. Remaining 20 percent stated that they had no idea about closure of small retail outlets. Of the total respondents 48.3 percent retailers have reported closure of small retail outlets.

Table 3 shows the retailers were asked to share their opinion on the possible effect of corporate retailing on small business. It is evident from the table 3 that there is not much difference in the opinion of both groups of retailers. Retailers

were of the view that corporate retail will result in cut throat competition, reduced margins, and decline in the number of small shops. There is less impact in terms of closure of small retail shops.

For examining the impact of corporate retailing on small retailers' percentage of regular customers, margin levels and sales of the retailers before opening of the corporate retail outlet and after opening of the corporate retail outlet is taken for analysis.

Table 1: Impact of Corporate Retail on Sales of Small Retailers

| Response | Number | Percent |
|---------------|-----------|--------------|
| Increased | 5 | 10.0 |
| Decreased | 35 | 70.0 |
| Remained same | 10 | 20.0 |
| Total | 50 | 100.0 |

Source: Primary Data

Table 2: Awareness about Closure of Small Retail Outlets

| Type of Retailer | Are You Aware of Any Retail Shops That Have Been Closed Down? | | | Total |
|--------------------|---|--------------|-------------|---------------|
| | Yes | No | Don't Know | |
| Small retailer | 26 52.0 % | 17 34.0 % | 7 14.0 % | 50 100.0 % |
| Corporate retailer | 3 30.0 % | 5 50.0 % | 2 20.0 % | 10 100.0 % |
| Total | 29 48.3 % | 22 36.7 % | 9 15.0 % | 60 100.0 % |

Source: Primary Data

Table 3-Impact of Corporate Retail on Small Business

| Response | Small retailer | | Corporate Retailer | | Total | |
|---------------------------------|----------------|--------------|--------------------|-------------|---------------|--------------|
| | Yes | No | Yes | No | Yes | No |
| Cut throat competition | 50 100.0 % | 0 0.0 % | 10 100.0 % | 0 .0 % | 60 100.0 % | 0 0.0 % |
| Decline in small shops | 26 52.0 % | 24 48.0 % | 5 50.0 % | 5 50.0 % | 31 51.7 % | 29 48.3 % |
| Closure of small shops | 18 36.0 % | 32 64.0 % | 3 30.0 % | 7 70.0 % | 21 35.0 % | 39 65.0 % |
| Reduced margins for small shops | 44 88.0 % | 6 12.0 % | 10 100.0 % | 0 .0 % | 54 90.0 % | 6 10.0 % |

Source: Primary Data

Impact on Percentage of Regular Customers

The Table 4 presents the percentage of change in regular customers to small retail outlet before and after opening of corporate retail outlet. It can be observed from the table that in the 50 % and above category there were 31(62 %) retailers which have come down to 7(14 %) retailers in the category. This shows that 24 (48 %) of the retailers have moved to less than 50 % category. 6(12 %) of retailers moved to lower level of up to 25 % category and 18 (36 %) retailers have moved down to 2550 % category. The percentage of regular customers came down from above 50 % to less than 50 % due to entry of corporate retail. It is observed that retailers in the 50 % and above category are adversely affected with the entry of corporate retailers in their vicinity. Further analysis revealed that there were 4 retailers in the up to 25 % category, and 2 retailers moved to 2550 % category. The closure of shops nearby resulted in increase in the number of regular customers. Among 2550 % category there were 15 retailers out of which 3 have moved to below 25 % and 10 are in the same

category. Among 50 % and above category there were 31 retailers, out of which 27 retailers have moved up to 50 % category and 4 are in the same category. It can be observed that 27(54 %) of the retailers have lost their regular customers due to presence of corporate retailers in their vicinity.

Table 4: Percentage of Regular Customers at Small Retail Outlet Before and After Opening of Corporate Retail Outlet

| Percentage of Regular Customers Earlier | Percentage of Regular Customers Now | | | Total |
|---|-------------------------------------|---------|----------------|---------|
| | Up To 25 % | 25-50 % | 50 % and Above | |
| Up to 25% | 2 | 2 | 0 | 4 |
| | 50.0 % | 50.0 % | .0 % | 100.0 % |
| 25-50 % | 2 | 10 | 3 | 15 |
| | 13.3 % | 66.7 % | 20.0 % | 100.0 % |
| 50 % and Above | 6 | 21 | 4 | 31 |
| | 19.4 % | 67.7 % | 12.9 % | 100.0 % |
| Total | 10 | 33 | 7 | 50 |
| | 20.0 % | 66.0 % | 14.0 % | 100.0 % |

Source: Primary Data

Hypothesis-1: There is no impact of corporate retail on small business in terms of changes in the percentage of regular customers.

Wilcoxon Signed Ranks Test

Table 6 shows In order to examine the hypothesis relating to percentage of regular customers of the retailers before and after entry of corporate retail outlet a non- parametric test Wilcoxon Matched paired signed ranks test is employed. It is observed from the Table 5 that in 37 instances percentage of customers now is less than percentage of customers earlier and in 9 instances percentage of customers now is greater than percentage of customers earlier and in 4 instances both are the same. The null hypothesis is that there is no impact of corporate retail on small business in terms of changes in the percentage of regular customers. The z- score of -4.539 with a p value of 0.000 in Table 6 indicates that the null hypothesis is rejected. It shows that there is significant impact of corporate retail on small business in terms of changes in percentage of regular customers.

Table 5: Ranks

| | | N | Mean Rank | Sum of Ranks |
|---|----------------|-------|-----------|--------------|
| Percent of customers now - Percent of customers earlier | Negative Ranks | 37(a) | 25.81 | 955.00 |
| | Positive Ranks | 9(b) | 14.00 | 126.00 |
| | Ties | 4(c) | | |
| | Total | 50 | | |

a. Percent of customers now < Percent of customers earlier

b. Percent of customers now > Percent of customers earlier

c. Percent of customers now = Percent of customers earlier

Table 6: Test Statistics

| | Percent of Customers Now - Percent of Customers Earlier |
|------------------------|---|
| Z | -4.539(a) |
| Asymp. Sig. (2-tailed) | .000 |

a. Based on positive ranks.

b. Wilcoxon Signed Ranks Test

Impact on Margin Levels

The Table 7 presents changes in the margin levels of the small retailers before and after the entry of the corporate retailers. It is also observed that before the entry of corporate retailers 32 (64 %) of the retailers used to get margin in the 1015 % range, which has come down to 9 (18 %) retailers in the category after the entry of corporate retailers. Further analysis revealed that 23(46 %) retailers have moved to lower margin levels. It can be observed that retailers in the high end margins are adversely affected.

Out of the 5 retailers within up to 5 % margin levels they have moved to 510 % range. The closure of shops nearby resulted in increase of their margin levels. Earlier 13 (26 %) retailers used to have 510 % margin levels, but after the entry of corporate retailers 37(74 %) reported to have 510 % margin levels. The number of retailers in this category increased as the retailers who were earning 10-15 % moved to lower levels of 510 % as their margins decreased.

Table 7: Margin Levels of Small Retailers before and After Opening of Corporate Retail Outlet

| Margin Levels Earlier | Margin Levels Now | | | Total |
|-----------------------|-------------------|---------|--------|---------|
| | Up To 5 % | 510 % | 1015 % | |
| Up to 5 % | 0 | 5 | 0 | 5 |
| | .0 % | 100.0 % | .0 % | 100.0 % |
| 5–10 % | 2 | 8 | 3 | 13 |
| | 15.4 % | 61.5 % | 23.1 % | 100.0 % |
| 10–15 % | 2 | 24 | 6 | 32 |
| | 6.3 % | 75.0 % | 18.8 % | 100.0 % |
| Total | 4 | 37 | 9 | 50 |
| | 8.0 % | 74.0 % | 18.0 % | 100.0 % |

Source: Primary Data

Hypothesis 2: There Is No Impact of Corporate Retail on Small Business in Terms of Changes in Margin Levels.

Wilcoxon Signed Ranks Test

Table 9 shows In order to examine the hypothesis relating to margin levels of the retailers before and after entry of corporate retail outlet a non- parametric test Wilcoxon Matched paired signed ranks test is employed. It is observed from Table 8 that in 28 instances margin levels now is less than margin levels earlier and in 8 instances margin levels now is greater than margin levels earlier and in 14 instances both are the same. The null hypothesis is that there is no impact of corporate retail on small business in terms of changes in margin levels. the z- score of -3.394 with a p value of 0.001 in Table 9 indicates that the null hypothesis is rejected. It shows that there is a significant impact of corporate retail on small business in terms of changes in margin levels. The small retailer's margins have come down after entry of corporate retail outlets in their vicinity.

Table 8: Ranks

| | | N | Mean Rank | Sum of Ranks |
|---|----------------|-------|-----------|--------------|
| Margin levels now - Margin levels earlier | Negative Ranks | 28(a) | 18.79 | 526.00 |
| | Positive Ranks | 8(b) | 17.50 | 140.00 |
| | Ties | 14(c) | | |
| | Total | 50 | | |

- a. Margin levels now < Margin levels earlier
- b. Margin levels now > Margin levels earlier
- c. Margin levels now = Margin levels earlier

Table 9: Test Statistics

| | Margin Levels Now - Margin Levels Earlier |
|------------------------|---|
| Z | -3.394(a) |
| Asymp. Sig. (2-tailed) | .001 |

a. Based on positive ranks.

b. Wilcoxon Signed Ranks Test

Impact on Sales

The Table 10 gives the sales of the respondents before and after the entry of corporate retail outlet. It may be observed that there is a change in the composition of the small retailers. On the whole there is a decrease in the higher segment namely above Rs.25000. Before the entry of the corporate retailers 39(78 %) retailers used to have more than Rs. 25000 sales, but after the entry of corporate retailers it has come down to 18(36 %) retailers. It can be understood that the sales of 21(42 %) retailers have been adversely affected as they have moved to lower levels. It can also be observed that retailers who used to have sales between Rs. 25000-50,000 are adversely affected.

Further analysis reveals that out of the retailers within the range of Rs.5000-25000, 4 retailers have moved to 25000-50000 sales and 1 has gone to the level of up to Rs.5000 sales. Remaining 4 are in the same range. The sales of 4 retailers increased as consumers from the other shops which have been closed shifted to this retailer. Out of the retailers who were in the range of Rs.25000-50000 only 6 retailers have moved upward and 17 have moved to a lower level of Rs.25000 and less. The sales of 17(34 %) retailers have come down as consumers switched to corporate stores nearby.

Table 10: Sales of Small Retailers before and After Opening of Corporate Retail Outlet

| Sales Earlier | Sales now | | | | Total |
|---------------------|----------------|---------------|-----------------|--------------------|---------|
| | Up to Rs. 5000 | Rs.5000-25000 | Rs. 25000-50000 | Rs.50000 and Above | |
| Up to Rs. 5000 | 0 | 1 | 0 | 1 | 2 |
| | .0 % | 50.0 % | .0 % | 50.0 % | 100.0 % |
| Rs. 5000-25000 | 1 | 4 | 4 | 0 | 9 |
| | 11.1 % | 44.4 % | 44.4 % | .0 % | 100.0 % |
| Rs. 25000-50000 | 4 | 13 | 4 | 6 | 27 |
| | 14.8 % | 48.1 % | 14.8 % | 22.2 % | 100.0 % |
| Rs. 50000 and Above | 2 | 7 | 3 | 0 | 12 |
| | 16.7 % | 58.3 % | 25.0 % | .0 % | 100.0 % |
| Total | 7 | 25 | 11 | 7 | 50 |
| | 14.0 % | 50.0 % | 22.0 % | 14.0 % | 100.0 % |

Source: Primary Data

Hypothesis 3: There Is No Impact of Corporate Retail on Small Business In Terms of Changes In Sales.

Wilcoxon Signed Ranks Test

Table 12 shows in order to examine the hypothesis relating to sales of the retailers before and after entry of corporate retail outlet a non- parametric test wilcoxon Matched paired signed ranks test is employed. It is observed from the Table 11 that in 32 instances sales now are less than sales earlier. And in 17 instances sales now are greater than sales earlier and in 1 instance both are same. The null hypothesis is that there is no impact of corporate retail on small business in terms of changes in sales. The z- score of -2.493 with a p value of 0.013 in Table 12 indicates that the null hypothesis is rejected. It shows that there is a significant impact of corporate retail on small business in terms of changes in sales. The sales of small retailers have come down due to the entry of corporate retail outlets in their vicinity.

Table 11: Ranks

| | | N | Mean Rank | Sum of Ranks |
|-------------------------|----------------|-----------|-----------|--------------|
| Sales now-Sales earlier | Negative Ranks | 32(a) | 26.97 | 863.00 |
| | Positive Ranks | 17(b) | 21.29 | 362.00 |
| | Ties | 1(c) | | |
| | Total | 50 | | |

- a. Sales now < Sales earlier
 b. Sales now > Sales earlier
 c. Sales now = Sales earlier

Table 12: Test Statistics

| | Sales NowSales Earlier |
|------------------------|------------------------|
| Z | -2.493(a) |
| Asymp. Sig. (2-tailed) | .013 |

- a. Based on positive ranks.
 b. Wilcoxon Signed Ranks Tests

CONCLUSIONS

The business of Majority of the small retailers has been decreased because of the opening of corporate retailers. This study shows a decrease in percentage of regular customers, margin levels and sales of the small retailers after the opening of corporate retail outlet in their vicinity. Despite the tough competition small retailers have not really shut shops but showed their determination to continue in business.

Small retailers are finally waking up to become more competitive and trying to attract more customers. Small retailers by offering competitive prices and value added services are trying to redefine themselves. Small retailers are upgrading their services, renovating stores and responding to the changed circumstances.

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